

# FISCAL NOTE

**Bill #:** SB0323

**Title:** Revise school funding

**Primary Sponsor:** Grimes, D

**Status:** Senate Third Reading

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<b><u>FY 2004 Difference</u></b>	<b><u>FY 2005 Difference</u></b>
<b>Expenditures:</b>		
General Fund	(\$1,105,000)	\$3,868,000
<b>Net Impact on General Fund Balance:</b>	\$1,105,000	(\$3,868,000)

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact<br><input type="checkbox"/> Included in the Executive Budget<br><input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns<br><input checked="" type="checkbox"/> Significant Long-Term Impacts<br><input checked="" type="checkbox"/> Needs to be included in HB 2 |
|--|---|

## Fiscal Analysis

### ASSUMPTIONS:

#### **Entitlement Increases**

1. The average number belonging (ANB) in K-12 public schools will be as follows:

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
K-6 ANB	76,057	74,289	72,130
7-8 ANB	25,082	25,147	25,203
9-12 ANB	50,366	49,989	49,002
Totals	151,505	149,425	146,662

2. The basic and per-ANB entitlements would be increased by 2% in FY 2004 and by 1% in FY 2005. The basic and per-ANB entitlements would be set as follows:

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Basic entitlement EL	\$19,244	\$19,629	\$19,825
Basic entitlement HS	\$213,819	\$218,095	\$220,276
Per-ANB entitlement EL	\$3,906	\$3,984	\$4,024
Per-ANB entitlement HS	\$5,205	\$5,309	\$5,362
Direct State Aid Percentage	44.7%	44.7%	44.7%

3. The statewide taxable valuation will increase by 4.0% in FY 2004 and by 5.5% in FY 2005.

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4. Under current law, direct state aid will be \$319.05 million in FY 2004 and \$314.20 million in FY 2005. Special education payments will be \$34.91 million in FY 2004 and FY 2005. Guaranteed tax base aid to schools will be \$97.82 million in FY 2004 and \$95.24 million in FY 2005.
5. SB 323 does not affect the state special education appropriation.
6. SB 323 provides that the total per-ANB entitlement of a school district will be calculated using the greater of the current year ANB or 92% of the prior year ANB.
7. Under SB 323, direct state aid will be \$327.33 million in FY 2004 and 326.06 million in FY 2005. Guaranteed tax base aid paid to schools will be \$100.692 million in FY 2004 and \$99.20 million in FY 2005 for a \$22.3 million state general fund increase in the biennium from the entitlement increases and \$4.8 million increase from the stop loss of 92% if the previous year's ANB in assumption 6.
8. As school district general fund budgets increase, increased salaries will lead to higher district retirement costs. District retirement costs are charged to the county retirement levies and state retirement guaranteed tax base (GTB) aid. Because the increases contained in this bill do not exceed the amount that district budget are assumed to increase under present law, there is no additional retirement amount added as a result of this bill.

### Retirement Fund Change

9. Retirement benefits as defined in this fiscal note include contributions of the employer to retirement systems, unemployment insurance, social security and Medicare.
10. School districts expended \$643.5 million for salaries in all school funds in FY 2002. Under SB 323, school districts would be required to charge retirement benefits to federal funds for employees who are paid from federal funds.
11. Salaries for this group of employees totaled \$69.06 million in FY 2002. It is assumed that salaries paid from federal funds increase by 13% from FY 2002 to FY 2003, and 14% from FY 2003 to FY 2004 and 10% in from FY 2004 to FY 2005. Salaries paid from federal dollars will be \$88.88 million in FY 2004, and \$97.77 million in FY 2005. The largest of the federal programs are Title I, Special Education, and federal Impact Aid.
12. The retirement cost for this employee group is the same as the percent of salaries that the individual districts charged to the retirement fund in FY 2002. The current law amount that school districts will charge federal funded salaries retirement expenses to the retirement fund are \$12.58 million in FY 2004 and \$13.84 million in FY 2005.
13. All federally funded positions will fund the cost of the retirement benefits from federal funds.
14. Districts will move as many positions as possible to the district general fund or the interlocal agreement fund. The net decrease in charges to the retirement fund will be \$11.6 million in FY 2004 and \$13.1 million in FY 2005.
15. In the first year that the retirement proposal is in effect districts will need to reduce their retirement fund reserves to the new lower level of retirement fund charges. This will have a one-time reduction in charges to the county and the state by \$2.9 million in FY 2004.
16. The state and county share the cost of the Retirement fund. The state's participation is based on a guaranteed tax base (GTB) aid formula. In FY 2004, the state share in this reduction in retirement fund cost is \$4,000,000 in FY 2004 and the county savings is anticipated to be \$10,500,000 in FY 2004. In FY 2005, the state share in this reduction in retirement fund cost is \$3,700,000 and the county savings is anticipated to be \$9,400,000.
17. The total anticipated savings to the state and county from this portion of the bill are:

	<u>FY 2004</u>	<u>FY 2005</u>
County	\$10,500,000	\$9,400,000
State	\$4,000,000	\$3,700,000

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**Removal of County Retirement Fund HB 124 block grant**

18. SB 323 removes the county retirement fund block grants that originated in HB 124 in the 2001 session. Under current law these block grants will be \$10.47 million in FY 2004 and \$10.55 in FY 2005. The savings to the state general fund will be \$10.47 million in FY 2004 and \$10.55 in FY 2005.

19. The anticipated increased cost to the state through GTB aid and county levies from this reduction in funding from the block grants is:

	<u>FY 2004</u>	<u>FY 2005</u>
County	\$8,256,000	\$8,253,000
State	\$2,215,000	\$2,298,000

20. The combined effects of removal of HB124 block grants and disallowing federal programs from charging retirement cost to the state and county via the county retirement fund is a net reduction in state expenditures of \$12.255 million in FY 2004 and \$11.952 million in FY 2005, a decrease of county expenditures of \$2.244 million in FY 2004 and \$1.147 million in FY 2005.

**FISCAL IMPACT:**

	<u>FY 2004</u> <u>Difference</u>	<u>FY 2005</u> <u>Difference</u>
<u>Expenditures:</u>		
Local Assistance - district	\$11,150,000	\$15,820,000
Local Assistance – county retirement	(1,785,000)	(1,402,000)
Local Assistance – block grants	<u>(10,470,000)</u>	<u>(10,550,000)</u>
TOTAL	(\$1,105,000)	\$3,868,000
<u>Funding of Expenditures:</u>		
General Fund (01)	(\$1,105,000)	\$3,868,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	(\$1,105,000)	\$3,868,000

**EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:**

1. School districts will respond to the entitlement increases in SB 323 in two ways. Most districts will increase general fund spending; others will provide property tax relief. Some districts will combine the two approaches. Districts that are currently spending at the BASE budget level will be required to increase spending and local property taxes to achieve the new BASE level. Increases in property taxes to support the over-BASE portion of school district budgets will require voter approval.
2. Net district taxes for the BASE budget are anticipated to increase \$3.5 million in FY 2004 and \$5.1 million in FY 2005 as a result of the entitlement increases and the increases in ANB in assumption 6. Above BASE taxes may increase or decrease depending on the decisions and current budget status of the district.
3. If increases in federal revenue do not increase enough to absorb the cost of retirement for these employees, school districts will need to reduce services paid for from federal funds in order to pay retirement benefits from these funds.
4. Net county property taxes for retirement budgets are projected to decrease by \$2.2 million in FY 2004 and by \$1.1 million in FY 2005. See assumptions 17 and 19.

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LONG-RANGE IMPACTS:

1. School district entitlements will be 3% higher in future years as a result of the 2% and 1% increases. As increases in federal funds are received they will no longer cause increases in state general fund expenditure and county levies.
2. SB 323 now contains a calculation for determining an inflation rate for basic and per ANB entitlements. If these inflation rates are required to be applied to the entitlements in the Governor's and Legislative budgets, it may require an amount higher than would have been budgeted without these inflation rates.

TECHNICAL NOTES:

1. The annual inflation adjustment calculated in section 1 for entitlements implies that the inflation rates will be applied to the entitlements. No procedure is included to apply the inflators to the basic and per-ANB entitlements in 20-9-306, MCA.
2. The inflation adjustment begins in 2006, so would not affect the budget preparation for the 2007 biennium.
3. Additional amendments are needed to Sections 2 and 3 to implement the amendment that allows district's to use the greater of the current year ANB or 92% of the prior year ANB.